

Aqua America

Overflowing Interest: Downgrading to Neutral

Rating Change: NEUTRAL | PO: 52.00 USD | Price: 50.57 USD

Transaction Approval, New Branding & Leadership

Following the PA PUC's approval of WTR's pending Peoples Gas transaction on Thursday, we are downgrading shares to Neutral. After a rather protracted process since announcing the acquisition in 2018, the commission finally voted 4-1 in favor of the deal, with Commissioner Place the lone commissioner opting against it. Following approval, the company put out a press release mid-afternoon on Thursday announcing their new name, ticker, and executive leadership team ahead of the transaction close. The name will become 'Essential Utilities' on February 3rd (the ticker is also set to transition to WTRG), with Chris Franklin remaining CEO & Chairman of the Pro Forma entity. Since [our launch](#) in July, shares are up 23%, outperforming the XLU by 1300bps. While the final commission approval helps to de-risk the earnings profile going forward, we see a more balanced setup into the upcoming Analyst Day (February 27th) when the company lays out their long term guidance (potentially *more smoothed*). We have confidence in the mgmt. team in place and note their ability to effectively deploy their currency for the deal. We further highlight the shares' ability to re-rate higher into the deal - despite the foray into gas - as helping to mitigate ESG concerns around gas uses more broadly. Further, gas is additive.

Updating our Valuation & Moving to the Sidelines

Our estimates remain unchanged following our broader [4Q water preview](#) published last week. While we remain above the street, we see shares as less attractive given elevated expectations into the Analyst Day and caution the lack of clarity around the ability to smooth earnings with implementation of the repairs tax benefit. With our latest valuation, we mark to market our above street estimates for the latest water and gas peer multiples of 28.1x and 19.6x (vs. 26.2x and 19.0x respectively just last week). Even after applying higher premiums to both the water and gas segments - which we see as worthwhile given the purer composition (vs. closest peer AWK with meaningful non-reg) and clear muni-driven EPS growth opportunities - our PO only shifts to \$52, implying just 5% TSR. With water multiples overall still quite elevated vs. peer utility asset classes & risk that mgmt. may seek to moderate near-term EPS in favor of a 'trajectory' we d/g.

Estimates (Dec)

(US\$)	2017A	2018A	2019E	2020E	2021E
EPS	1.36	1.41	1.47	1.70	1.72
GAAP EPS	1.36	1.41	1.47	1.70	1.72
EPS Change (YoY)	3.0%	3.7%	4.3%	15.6%	1.2%
Consensus EPS (Bloomberg)			1.44	1.56	1.67
DPS	0.81	0.86	0.92	0.99	1.06

Valuation (Dec)

	2017A	2018A	2019E	2020E	2021E
P/E	37.2x	35.9x	34.4x	29.7x	29.4x
GAAP P/E	37.2x	35.9x	34.4x	29.7x	29.4x
Dividend Yield	1.6%	1.7%	1.8%	2.0%	2.1%
EV / EBITDA*	1.2x	9.1x	29.9x	18.7x	17.8x
Free Cash Flow Yield*	-0.9%	-1.2%	-1.4%	-1.2%	-0.9%

* For full definitions of *IQmethod™* measures, see page 8.

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12085436

Timestamp: 21 January 2020 06:00AM EST

21 January 2020

Equity

Key Changes

(US\$)	Previous	Current
Inv. Opinion	A-1-7	A-2-7
Inv. Rating	BUY	NEUTRAL
Price Obj.	47.00	52.00

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Stock Data

Price	50.57 USD
Price Objective	52.00 USD
Date Established	21-Jan-2020
Investment Opinion	A-2-7
52-Week Range	33.72 USD - 50.71 USD
Mkt Val (mn) / Shares Out (mn)	10,915 USD / 215.8
Average Daily Value (mn)	57.60 USD
BofA Ticker / Exchange	WTR / NAS
Bloomberg / Reuters	WTR US / WTR.N
ROE (2019E)	8.4%
Net Dbt to Eqty (Dec-2018A)	127.1%

PUC: Public Utility Commission

TSR: Total Shareholder Return

iQprofileSM Aqua America

iQmethodSM – Bus Performance*

(US\$ Millions)	2017A	2018A	2019E	2020E	2021E
Return on Capital Employed	5.1%	3.9%	3.9%	5.1%	5.0%
Return on Equity	12.6%	9.7%	8.4%	8.3%	8.1%
Operating Margin	41.5%	38.7%	41.7%	68.9%	70.1%
Free Cash Flow	(97)	(127)	(154)	(135)	(95)

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2017A	2018A	2019E	2020E	2021E
Cash Realization Ratio	1.6x	1.9x	1.7x	1.8x	1.9x
Asset Replacement Ratio	3.5x	3.4x	3.9x	2.6x	2.5x
Tax Rate	6.6%	NM	10.0%	10.0%	10.0%
Net Debt-to-Equity Ratio	108.3%	127.1%	95.9%	99.5%	102.6%
Interest Cover	3.9x	2.8x	3.4x	3.5x	3.3x

Income Statement Data (Dec)

(US\$ Millions)	2017A	2018A	2019E	2020E	2021E
Sales	805	835	902	949	966
% Change	0.6%	3.7%	8.0%	5.3%	1.7%
Gross Profit	810	838	905	1,572	1,638
% Change	-1.3%	3.5%	8.0%	73.7%	4.2%
EBITDA	14,226	1,941	590	942	990
% Change	-33.6%	-86.4%	-69.6%	59.7%	5.1%
Net Interest & Other Income	(88)	(99)	(115)	(193)	(210)
Net Income (Adjusted)	240	192	284	404	409
% Change	2.4%	-19.9%	48.1%	42.2%	1.2%

Free Cash Flow Data (Dec)

(US\$ Millions)	2017A	2018A	2019E	2020E	2021E
Net Income from Cont Operations (GAAP)	240	192	325	432	437
Depreciation & Amortization	137	147	163	330	356
Change in Working Capital	NA	NA	NA	NA	NA
Deferred Taxation Charge	14	(15)	0	0	0
Other Adjustments, Net	(9)	45	(3)	(32)	(3)
Capital Expenditure	(478)	(496)	(639)	(865)	(885)
Free Cash Flow	-97	-127	-154	-135	-95
% Change	NM	-31.5%	-21.4%	12.4%	29.6%

Balance Sheet Data (Dec)

(US\$ Millions)	2017A	2018A	2019E	2020E	2021E
Cash & Equivalents	4	4	3	5	5
Trade Receivables	99	101	109	190	198
Other Current Assets	28	42	44	56	57
Property, Plant & Equipment	5,400	5,930	9,132	9,667	10,196
Other Non-Current Assets	801	887	2,462	2,462	2,462
Total Assets	6,332	6,964	11,750	12,380	12,919
Short-Term Debt	117	160	287	310	332
Other Current Liabilities	167	239	245	307	313
Long-Term Debt	2,008	2,398	4,290	4,638	4,963
Other Non-Current Liabilities	2,083	2,158	2,158	2,158	2,158
Total Liabilities	4,375	4,955	6,979	7,412	7,765
Total Equity	1,958	2,009	4,771	4,968	5,154
Total Equity & Liabilities	6,332	6,964	11,750	12,380	12,919

* For full definitions of iQmethodSM measures, see page 8.

Company Sector

Water Utilities

Company Description

Aqua America is a regulated water utility providing water or wastewater services to 3M customers in the states of PA, OH, TX, IL, NC, NJ, IN, and WV, with PA segment being the largest contributor to the NI. In Oct 2018, The company announced the acquisition of Peoples Gas in Oct 2018, which the PA PUC approved in January 2020. Peoples Gas is a gas utility providing distribution services to 740,000 customers in PA, WV, and KY.

Investment Rationale

We are Neutral rated on shares of WTR, seeing risk/reward as balanced at the current valuation. We have confidence in the mgmt. team in place and view the People's Gas deal constructively. The re-effective use of their currency can drive value, and the ability for shares to re-rate higher - despite the foray into gas - helps to mitigate ESG concerns around gas utilities more broadly.

Stock Data

Average Daily Volume 1,138,923

Quarterly Earnings Estimates

	2018	2019
Q1	NA	NA
Q2	NA	NA
Q3	NA	NA
Q4	NA	NA



Details of Pro Forma 'Essential Utilities' Revealed

Following approval from the Pennsylvania Public Utility Commission on Thursday for their pending acquisition of Peoples Gas, WTR put out a press release mid-afternoon announcing their new name, ticker and executive leadership team ahead of the close. The name will become "Essential Utilities" on Feb 3rd, with Chris Franklin remaining CEO and Chairman of the pro forma entity. The same day, the ticker is set to transition to WTRG. We include the full slate of leadership updates in the exhibit below. Mgmt. plans to host an Analyst Day in New York on February 27th with the release of full year results, which should provide an opportunity to interact and engage in Q&A with the newly introduced executive team.

Despite our more balanced view of shares, we have confidence in the mgmt. team in place and view the deal constructively; the re- effective use of their currency can drive value, and the ability for shares to re-rate higher - despite the foray into gas - helps to mitigate ESG concerns around gas utilities more broadly.

Table 1: WTR Leadership Team: Executives

'Essential Utilities' Executive Leadership Team	
Name	Title
Chris Franklin	Chairman, CEO
Richard Fox	EVP, COO
Christopher Luning	EVP, GC
Matthew Rhodes	EVP, Strategy and Corp Development
Dan Schuller	EVP, CFO
Ruth DeLost-Wylie	SVP, Business Transformation
Susan Haindl	SVP, Chief Administrative Officer
Christina Kelly	SVP, Chief HR Officer
Brian Dingerdissen	VP, Chief of Staff, IR & Communications
Kimberly Joyce	VP, Regulatory & Government Affairs

Source: BofA Global Research, company report

Table 2: WTR Leadership Team: Executives

'Essential Utilities' Operating Presidents	
Name	Title
Joseph Gregorini	President, Nat Gas Utilities
Colleen Arnold	President, Water & Wastewater Utilities

Source: BofA Global Research, company report

...but Repairs Tax Details Unaddressed

Despite the protracted timeline for the close of the transaction (we perceive around March 1st as a conservative expectation for final close), the company plans to elect to implement the [repairs tax benefit](#) in 2020. Under the strategy, earnings will see a large step up as the company expenses capital costs as opposed to depreciating them over a useful life for tax purposes. The magnitude of the initial increase will ultimately be determined by how much of the capital investment program qualifies for the treatment and whether the commission allows the company to use a catch up component for costs that are currently being depreciated. Our sense is that capital investments back to 2012 could potentially be privy to such treatment – albeit we perceive historical investment as likely more muted relative to future capital expenditures. With any approved catch up component, we also would expect the commission to be inclined to give at least part of the benefit back to customers.

While mgmt. has noted a desire to smooth out the impact from implementation as opposed to a large step up in '20 and minimal growth in future years, how they will approach this remains unclear. Bottom line, we see more execution risk to implementation given the elevated expectations implied by the current share price. Look for additional details at the upcoming Analyst Day on February 27th.



EPS Estimates

The exhibit below reflects our unchanged EPS estimates into the upcoming Analyst Day. We remain 3% above the street for '21 given what we perceive as strong earnings upside from the election of the Repairs Tax Benefit. That said, we perceive higher expectations from the buy side as largely priced in at the current valuation.

Table 1: EPS Estimates: still meaningfully above Street ests, but this moderates

EPS Estimates	2019E	2020E	2021E	2022E	2023E
PA	\$1.05	\$0.79	\$0.77	\$0.82	\$0.86
OH	\$0.09	\$0.07	\$0.07	\$0.08	\$0.08
IL	\$0.10	\$0.07	\$0.08	\$0.08	\$0.09
TX	\$0.08	\$0.06	\$0.06	\$0.06	\$0.06
NC	\$0.05	\$0.04	\$0.04	\$0.04	\$0.05
Other States	\$0.10	\$0.08	\$0.09	\$0.09	\$0.10
Water Utility	1.47	1.12	1.11	1.17	1.24
Peoples Gas		0.66	0.71	0.77	0.82
<i>Parent & Other</i>		<i>-0.08</i>	<i>-0.10</i>	<i>-0.12</i>	<i>-0.14</i>
EPS	1.47	1.70	1.72	1.82	1.92
<i>YoY Growth</i>		<i>16%</i>	<i>1%</i>	<i>6%</i>	<i>6%</i>
Guidance	1.45-1.50				
<i>Shares O/S</i>	<i>193</i>	<i>238</i>	<i>238</i>	<i>250</i>	<i>254</i>
<i>Fully Diluted Shares O/S</i>	<i>178</i>	<i>254</i>	<i>254</i>	<i>254</i>	<i>254</i>
<u><i>Previous EPS</i></u>		<i>\$1.70</i>	<i>\$1.72</i>	<i>\$1.82</i>	
Consensus	1.44	1.56	1.67		

Source: BofA Global Research, Bloomberg



PO Shifts to \$52: Downgrade to Neutral

The exhibit below reflects our latest SOTP. While our estimates remain unchanged, we mark to market for the latest utility peer multiples and update our premium/discount assumptions. Latest peer multiples shift to 28.1x and 19.6x for water and gas, respectively vs. 26.2x and 19.0x previously.

We now apply premiums to the water segment of 2x for PA (up from 1.5x previously), and add additional premiums of 2x, 3x, and 1x for OH, IL, and NC, respectively. We continue to highlight IL as a key state to watch for consolidation in the industry.

Following approval of the Peoples Gas transaction by the commission last week, we apply a 2x premium to the LDC peer group (compared to a -0.5x discount previously).

Despite the higher premiums ascribed in our valuation and our street-high estimates, our SOTP suggests limited upside after the latest run-up in share price. While our PO shifts to \$52, we now see risk/reward as more fairly balanced at the current share price.

Downgrade to Neutral.

We treat the blended entity with premium multiples still and see its fully regulated profile with sustained EPS growth as superior among water utility peers. We stress the ongoing municipal acquisition cycle appears to have accelerated of late (see our water preview) with datapoints suggesting this should indeed persist. We see the relative market cap size and breadth of state involvement as allowing larger market-cap companies to prove more nimble in pursuing municipal acquisitions.

Table 2: WTR SOTP

Water Utilities	2022 EPS		P/E Multiple				Equity Value		
	Peer	Prem/Disc	Low	Base	High	Low	Base	High	
Peer Water P/E	28.1x								
Group EPS '18-'22 CAGR	8.30%								
1-year forward group Water multiple	30.4x								
Water Utilities									
States	2022E EPS ROE embedded								
PA	\$0.82	10.0%	2.0x	31.4x	32.4x	33.4x	\$26	\$27	\$27
OH	\$0.08	9.9%	2.0x	31.4x	32.4x	33.4x	\$2	\$3	\$3
IL	\$0.08	9.6%	3.0x	32.4x	33.4x	34.4x	\$3	\$3	\$3
TX	\$0.06	10.0%	0.0x	29.4x	30.4x	31.4x	\$2	\$2	\$2
NC	\$0.04	9.9%	1.0x	30.4x	31.4x	32.4x	\$1	\$1	\$1
Other (including acquisitions)	\$0.09	9.9%	0.0x	29.4x	30.4x	31.4x	\$3	\$3	\$3
Water utilities total (ex-Peoples)	\$1.17			31.2x	32.2x	33.2x	\$37	\$38	\$39
Gas Utilities									
Peer Gas P/E	19.6x								
Group EPS '18-'22 CAGR	5.80%								
Peoples Gas Multiple	20.7x								
	2022E EPS ROE embedded								
Peoples Gas	\$0.77	13.5%	2.0x	21.7x	22.7x	23.7x	\$17	\$17	\$18
HoldCo Debt									
(50% Netting out Debt) @ Aqua Parent			-811	50%			(\$406)	(\$406)	(\$406)
(50% P/E multiple on Interest Exp)			4.3%	50%			(\$402)	(\$371)	(\$433)
50/50 Weighted Drag from HoldCo Drag							(\$808)	(\$777)	(\$839)
Fully Diluted Shares Outstanding							254	254	254
PO							\$50.00	\$52.00	\$54.00
Current Price							\$50.57		
Dividend Yield							2%		
Total Return							4.65%		

Source: BofA Global Research, Bloomberg

Price objective basis & risk

Aqua America (WTR)

Our price objective is \$52 based on our SOTP approach, applying a peer multiple to the water utility and gas utility, respectively and accounting for expected growth for each sector. We apply a 2.0x premium to Peoples Gas given the organic growth opportunities. We net out parent debt and parent interest expense associated with parent debt 50/50 weighed basis.

Risks to the downside are acquisition risk, deteriorating regulatory outcomes, and risks from a lower rerating following the diversification into gas.

Risks to the upside include upward revisions to street estimates and further accretion from implementation of the Repairs Tax Benefit

Analyst Certification

I, Julien Dumoulin-Smith, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.



North American Utilities, Alternative Energy & LNG Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Alliant Energy Corporation	LNT	LNT US	Julien Dumoulin-Smith
	AltaGas	YALA	ALA CN	Julien Dumoulin-Smith
	Ameren Corporation	AEE	AEE US	Julien Dumoulin-Smith
	American Electric Power	AEP	AEP US	Julien Dumoulin-Smith
	Atlantica Yield	AY	AY US	Julien Dumoulin-Smith
	Atmos Energy Corporation	ATO	ATO US	Richard Ciciarelli, CFA
	Black Hills Corporation	BKH	BKH US	Julien Dumoulin-Smith
	Cheniere Energy Inc	LNG	LNG US	Julien Dumoulin-Smith
	Clearway Energy	CWENA	CWEN/A US	Julien Dumoulin-Smith
	Clearway Energy	CWEN	CWEN US	Julien Dumoulin-Smith
	CMS Energy	CMS	CMS US	Julien Dumoulin-Smith
	Emera Inc	YEMA	EMA CN	Julien Dumoulin-Smith
	Energy	ETR	ETR US	Julien Dumoulin-Smith
	Exelon	EXC	EXC US	Julien Dumoulin-Smith
	First Solar, Inc.	FSLR	FSLR US	Julien Dumoulin-Smith
	NextEra Energy	NEE	NEE US	Julien Dumoulin-Smith
	NiSource Inc	NI	NI US	Julien Dumoulin-Smith
	NRG Energy	NRG	NRG US	Julien Dumoulin-Smith
	OGE Energy Corp	OGE	OGE US	Julien Dumoulin-Smith
	PNM Resources Inc.	PNM	PNM US	Julien Dumoulin-Smith
	Portland General Electric Company	POR	POR US	Julien Dumoulin-Smith
	Spire	SR	SR US	Richard Ciciarelli, CFA
	Sunnova Energy	NOVA	NOVA US	Julien Dumoulin-Smith
	SunRun	RUN	RUN US	Julien Dumoulin-Smith
	Vistra Energy	VST	VST US	Julien Dumoulin-Smith
	Vivint Solar	VSLR	VSLR US	Julien Dumoulin-Smith
NEUTRAL				
	AES	AES	AES US	Julien Dumoulin-Smith
	Algonquin Power & Utilities Corp	AQN	AQN US	Julien Dumoulin-Smith
	Algonquin Power & Utilities Corp	YAQN	AQN CN	Julien Dumoulin-Smith
	Aqua America	WTR	WTR US	Julien Dumoulin-Smith
	CenterPoint Energy	CNP	CNP US	Julien Dumoulin-Smith
	Consolidated Edison	ED	ED US	Julien Dumoulin-Smith
	Dominion Energy	D	D US	Julien Dumoulin-Smith
	DTE Energy	DTE	DTE US	Julien Dumoulin-Smith
	Edison International	EIX	EIX US	Julien Dumoulin-Smith
	FirstEnergy	FE	FE US	Julien Dumoulin-Smith
	Fortis	YFTS	FTS CN	Julien Dumoulin-Smith
	Fortis Inc	FTS	FTS US	Julien Dumoulin-Smith
	Hannon Armstrong	HASI	HASI US	Julien Dumoulin-Smith
	Idacorp	IDA	IDA US	Julien Dumoulin-Smith
	NextDecade	NEXT	NEXT US	Julien Dumoulin-Smith
	NextEra Energy Partners	NEP	NEP US	Julien Dumoulin-Smith
	Pinnacle West	PNW	PNW US	Julien Dumoulin-Smith
	PPL Corporation	PPL	PPL US	Julien Dumoulin-Smith
	Public Service Enterprise Group	PEG	PEG US	Julien Dumoulin-Smith
	Sempra Energy	SRE	SRE US	Julien Dumoulin-Smith
	Southern Company	SO	SO US	Julien Dumoulin-Smith
	Tellurian Inc	TELL	TELL US	Julien Dumoulin-Smith
UNDERPERFORM				
	American Water Works	AWK	AWK US	Julien Dumoulin-Smith
	Avangrid	AGR	AGR US	Julien Dumoulin-Smith
	Avista	AVA	AVA US	Richard Ciciarelli, CFA
	Bloom Energy	BE	BE US	Julien Dumoulin-Smith
	Duke Energy	DUK	DUK US	Julien Dumoulin-Smith
	Evergy, Inc	EVERG	EVERG US	Julien Dumoulin-Smith
	Eversource Energy	ES	ES US	Julien Dumoulin-Smith
	Hawaiian Electric Industries	HE	HE US	Julien Dumoulin-Smith
	NorthWestern Corporation	NWE	NWE US	Julien Dumoulin-Smith
	SunPower Corp.	SPWR	SPWR US	Julien Dumoulin-Smith
	Unitil Corporation	UTL	UTL US	Julien Dumoulin-Smith
	WEC Energy Group Inc	WEC	WEC US	Julien Dumoulin-Smith
	Xcel Energy Inc	XEL	XEL US	Julien Dumoulin-Smith
RSTR				



North American Utilities, Alternative Energy & LNG Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	El Paso Electric Company	EE	EE US	Julien Dumoulin-Smith
	Pattern Energy Group	PEGI	PEGI US	Julien Dumoulin-Smith

iQ^{method}SM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) * (1 - Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price * Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

iQ^{method}SM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQ^{method} are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

iQ^{database}* is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by BofA Global Research.

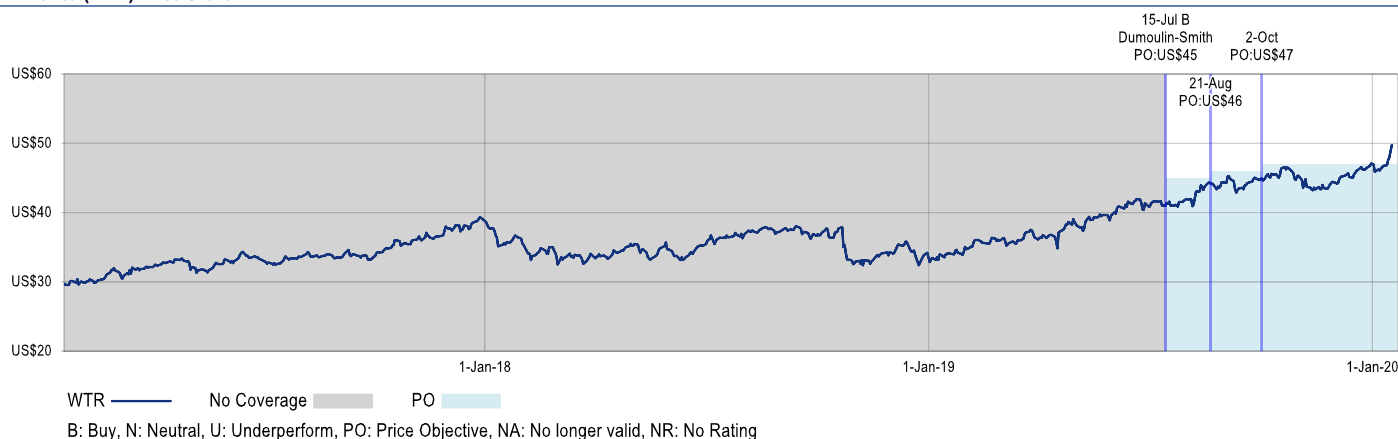
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Disclosures

Important Disclosures

Aqua America (WTR) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Utilities Group (as of 31 Dec 2019)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	63	44.06%	Buy	44	69.84%
Hold	43	30.07%	Hold	31	72.09%
Sell	37	25.87%	Sell	27	72.97%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2019)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1560	50.49%	Buy	991	63.53%
Hold	717	23.20%	Hold	461	64.30%
Sell	813	26.31%	Sell	415	51.05%

* Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
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Underperform	N/A	≥ 20%

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